



INTERIM REPORT 2020

SYFT TECHNOLOGIES

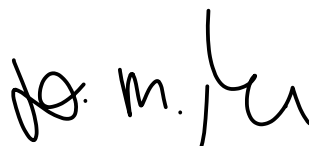
Highlights of the first six months of FY20:

- Rapid growth trajectory continues
- Installation of instruments to Micron on track
- 40% improvement in production speed for non-Micron related instruments
- ISO 9001 accreditation achieved
- \$13.1 million of sales revenue achieved
- Cash reserves of \$2.6 million at 30 September

This report is dated 5th December 2019 and is signed on behalf of Syft Technologies Limited by Al Monro, Chairman, and Doug Hastie, Managing Director.



Al Monro
Chairman



Doug Hastie
Managing Director

Syft continues to grow at a faster and faster rate as we create more customer advocates that use our unique technology.

The first six months of the 2020 financial year has again been positive for Syft. Revenue, gross profit and gross margin all increased over the results for the same period last year. As noted below, NZ IFRS 15, adopted in FY19, requires specific criteria to be met around revenue recognition. This has negatively impacted our September results.

While the first six months have been positive for Syft, we are forecasting a full year loss for FY20 as sales previously expected in this financial year have been moved to early FY21. While this is not ideal, it's not a concern as it is a timing issue only.

The period has been dominated by the production and installation of the new *Infinity* instruments for Nasdaq-listed Micron Technologies. While this relationship is very positive for Syft in the long-term, it has caused significant short-term disruption as we have refocused our resources to fulfil Micron's requirements. Primarily this has driven a need to redeploy people from sales and development to production and installation. The offset to the short-term disruption is our expectation of further future sales to Micron and other semiconductor providers.

Financial performance

New accounting revenue recognition rules under NZ IFRS 15 adopted in prior year require a number of criteria to be met. Our Micron contract contains acceptance milestones and therefore we have been unable to include a portion of revenue as the work was still being performed for instruments shipped close to 30 September. The following table and commentary restates the reported result to remove the impact of NZ IFRS 15 based on the contract status as at 30 September 2019.

Compared to the six months ending 30th September 2018, these adjusted results show:

- An 82%, or \$5.8m increase in revenue.
- A 200%, or \$1.2m increase in net profit before tax
- An increase in gross margin % from 62% to 67%.

	Total Operating Revenue	Gross Profit	Profit before Tax
Reported results for the six months to 30 Sept 2019	\$13.9m	\$5.7m	-\$1.1m
Instruments shipped prior to 30 th September but unable to recognise under revenue recognition criteria	+\$4.5m	+\$2.9m	+\$2.9m
Sales of products from 3 rd party suppliers at no margin.	-\$5.5m	0	0
Adjusted Results for the six months to 30 Sept 2019	\$12.9m	\$8.6m	\$1.8m
Reported results for the six months to 30 Sept 2018	\$7.1m	\$4.4m	\$0.6m

Note totals may not add correctly due to rounding

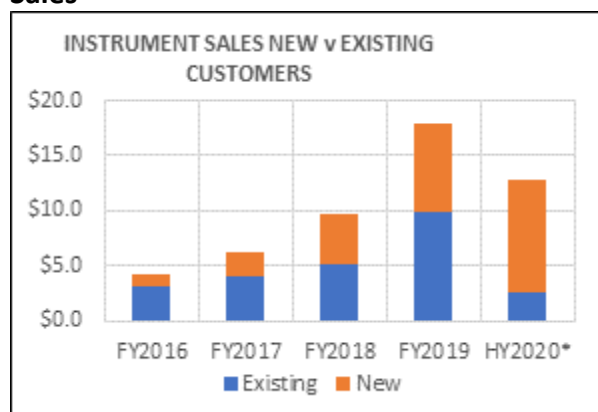
The Micron contract has had an impact on Syft's balance sheet in three areas:

- The higher Accounts receivable total reflects sales made towards the end of the period to Micron.
- Higher inventory relates to purchases from 3rd party suppliers for components needed to fulfil the Micron contract, as well as higher work in progress due to slower production times.
- The higher Accounts payable total relates to the inventory purchases from 3rd party suppliers and is directly attributable to the Micron contract.

Due to the timing of sales to Micron and other customers, the balance sheet as at 31 March 2020 is expected to reflect these one-off impacts but should return to normal in FY21.

Cash on hand as at 30 September was \$2.6 million. As a business, we continue to operate with a conservative approach to cash management. We recognise that our most significant area of financial risk is the traditionally lumpy profile of sales. Syft's rapid growth is steadily reducing the impact these fluctuations can cause as we achieve greater scale and increased diversification of our customers and applications however a mid-term risk remains and, therefore, we continue to carefully manage for it.

Sales



* FY2020 is 6 months only while previous financial years are 12 months.

We consider sales to new customers will be the primary driver of Syft's longer-term growth ambitions and these continue to grow. New customers also increase the diversity of our revenue base, which in the long-term will reduce potential sales volatility. In the last six months, our focus was on delivering sales to Micron and other new accounts, leading to a relative dominance of sales for this period being to new customers.

Our current sales focus is the Semiconductor and the Environmental markets as they have been identified as offering the best sales opportunities given the resources we have available at present. We also continue to reach across the globe to support our existing customers and markets which include Samsung, LG, SC Johnson, and Ford Motor Company; prestigious international universities such as Harvard, Stanford, Imperial College, and Cleveland Clinic; and government agencies including Australian and Canadian Customs. While we have been very pleased with the increase in new customer sales during the first half, a shortage of trained and experienced staff and our small number of overseas sales offices is proving to be a constraining factor on our sales activities. The opening of a Korean

office in August 2018 has been an outstanding success and supports our belief that a deep pool of sales opportunities exists. With more international sales offices and a greater international profile, we could grow our business faster. We continue to look for the right people to lead these offices in order to take advantage of these identified opportunities.

Development and production

The focus on manufacturing *Infinity* instruments for Micron in the first six months of FY20 has led to overall production capacity being reduced for the period. While this lower output has impacted revenue in the short-term, the long-term effect of the Micron contract is considered to be very positive for Syft. Our development and production teams have done a fantastic job in stepping up to the challenge of shortening the development cycle to produce these higher specification instruments.

During the six months, production times for the existing Ultra instruments have been reduced by approximately 40%. While this improvement in production speeds has not significantly reduced production costs, it has introduced efficiencies in capacity and inventory requirements and order delivery times, with a flow-on benefit to cash flow. We have identified further efficiencies in the production cycles, and these will be introduced in the next 12 months.

In November we received ISO 9001 accreditation. The international standard specifies requirements for a quality management system. This accreditation is another step in our journey from small university company to a large-scale manufacturer, recognising the quality and dependability of our systems and processes and providing additional assurance to current and potential customers. The accreditation was achieved in only six months, which is an outstanding effort and is a credit to the quality and dedication of the Syft team.

People

Syft's success in the last few years can, to a large extent, be attributed to its people. Excellent people, in an appropriate organisational structure, held together by a positive and empowering culture to drive a strong business is proving to be a winning formula. This strength is a fundamental driver of our financial business performance however we continue to face a number of major challenges. Principally these relate to employing more senior managers, employing more people in general and improving our organisational structure to scale for growth.

These challenges need to be kept in perspective. They are a function of Syft growing very quickly, profitably, and without the need to call on shareholders for additional capital. Again, the challenges that we face are due to the quality and dedication of our people. Pushing harder must be balanced against ensuring a focus is retained on the factors we have identified that give us strength.

Shareholder communications

To ensure shareholders are kept well informed on Syft's activities we have committed to a programme of more frequent communications. The programme will include more detailed commentary around the half year and annual accounts, investor calls following these announcements and quarterly updates.

Our website is a key channel for accessing the latest information on company activity. A new feature will shortly be added that will enable you to subscribe for website updates. If you would like to be contacted when this feature goes live, please email us on investor@syft.com.

Governance

Ruth Richardson and Richard Coleman both retired as Directors following the AGM. Al Monro has been appointed as the new Chair. Al's experience growing NextWindow from idea to trade sale is particularly relevant to Syft's growth path. Further appointments are being considered to ensure the Board has the skills needed to oversee the business as it continues its journey of growth.

Outlook

The first six months have provided an excellent start to the 2020 financial year. While our sales pipeline remains strong, we expect our full year financial results to be affected by the timing of sales contracts. Sales we had previously expected to be finalised in the current financial year are now likely to move to FY21. The impact of the delay is that Syft is expected to report a loss for the FY20 year.

Our focus remains on delivering long-term profitability. We continue to remain very positive on the short, medium, and long-term prospects of our business subject to the inherent volatility associated with the timing of unit sales in the short-term.



Doug Hastie and the Syft team accepting the Technology Investment Network's 2019 Supreme Scale Up award

Directory

DIRECTORS

Al Monro (Chairman)
Michael Bushell
Doug Hastie
Desh Edirisuriya

REGISTERED OFFICE

3 Craft Place
Christchurch, 8024
New Zealand

BANKERS

Bank of New Zealand
PO Box 1461
Christchurch

AUDITORS

PricewaterhouseCoopers
PO Box 13244
Christchurch

SHARE REGISTRARS

Computer Share
Private Bag 92119
Victoria Street West
Auckland 1142
New Zealand
T. +64 9 488 8777
F. +64 9 488 8787
E. enquiry@computershare.co.nz

ADDRESS FOR COMMUNICATIONS

POSTAL

PO Box 28 149
Christchurch, 8023

TELEPHONE

03 338 6701

FAX

03 338 6704

EMAIL

investor@syft.com

